

MARKET CONDUCT EXAMINATION REPORT

As Of December 31, 2005

**Jackson National Life Insurance Company
1 Corporate Way
Lansing, MI 48951**

**NAIC Company Code: 65056
NAIC Group No: 0918**

**EXAMINATION PERFORMED
For
STATE OF COLORADO
DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE**

**Jackson National Life Insurance Company
1 Corporate Way
Lansing, MI 48951**

**MARKET CONDUCT
EXAMINATION REPORT
as of
December 31, 2005**

Examination Performed by

**Stephen E. King, CIE
Jo-Anne G. Fameree, CIE, FLMI, AIRC, ACS**

Independent Market Conduct Examiners

September 15, 2006

The Honorable David F. Rivera
Insurance Commissioner
State of Colorado
1560 Broadway, Suite 850
Denver, Colorado 80202

Commissioner:

A market conduct examination of Jackson National Life Insurance Company was conducted in accordance with and pursuant to §§10-1-203 and 10-3-1106, Colorado Revised Statutes. This examination focused on the Company's life and annuity business. Examiners completed a review of underwriting, rating, policyholder service, marketing and sales, and claims practices. The records/files were examined at the Company's headquarters, located at 1 Corporate Way, Lansing, MI 48951.

The time period covered by the examination was from January 1, 2005 through December 31, 2005.

The results of the examination, herein, are respectfully submitted.

Stephen E. King, CIE

Jo-Anne G. Fameree, CIE, FLMI, AIRC, ACS

**MARKET CONDUCT
EXAMINATION REPORT
OF
JACKSON NATIONAL LIFE INSURANCE COMPANY**

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COMPANY PROFILE

Jackson National Life Insurance Company (“JNL” or “Company”) was licensed and began business in Colorado, on October 6, 1978. JNL, headquartered in Lansing, MI, is one of America’s largest life insurance companies and financial services organizations. JNL also sells separately managed accounts, life insurance and institutional products. The Company markets its products in forty-nine (49) states and the District of Columbia, through independent and regional broker-dealers, financial institutions, independent insurance agents and registered investment advisors. JNL’s subsidiary, Jackson National Life Insurance Company of New York, similarly markets products in the state of New York. The Company is a wholly owned indirect subsidiary of Prudential plc. Prudential plc and its affiliated companies constitute one of the worlds leading financial services groups.

COMPANY OPERATIONS AND MANAGEMENT

JNL distributes its products in Colorado only through independent producers and does not have any producers in Colorado who are employees of the Company. JNL enters into selling agreements with financial institutions and broker-dealers, but does not have a direct contractual relationship with the producers associated with these entities. The Company enters into producer agreements with independent insurance producers who distribute fixed and life products.

Jackson National Life Distributors, LLC (JNLD) is a direct subsidiary of JNL and markets JNL’s insurance and variable products to the three distribution channels, the Institutional Marketing Group (IMG), JNLD Registered and JNLD Guaranteed. The IMG channel markets life insurance and annuity products to financial institutions. The JNLD Registered channel markets annuity and insurance products to registered representatives affiliated with independent broker-dealers. The JNLD Guaranteed channel, markets annuity and insurance products to independent producers. JNLD is registered as a broker-dealer with the Securities and Exchange Commission and is a member of the NASD.

In 2005, the Company’s life insurance business represented a 0.53% * share of the Colorado life insurance market, with direct premiums totaling \$9,498,000*. The Company’s annuity business represented a 4.71%* share of the Colorado annuity market, with considerations totaling \$191,202,000*.

*Data as reported by the NAIC and published as the “Combined Market Share Report”

PURPOSE AND SCOPE OF EXAMINATION

Independent Examiners, contracting with the Colorado Division of Insurance (DOI), in accordance with Colorado Insurance Law, §§ 10-1-201, 10-1-203 and 10-1-204 C.R.S., which allows the Commissioner the discretion and authority to schedule and conduct examinations for the purpose of auditing business practices of insurers, reviewed certain business practices of the Company. The findings in this report, including all work products developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Company's compliance with Colorado insurance laws related to life insurance and annuity business. Examination information contained in this report should serve only this purpose. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

Examiners conducted the examination in accordance with procedures developed by the Colorado Division of Insurance, based on model procedures developed by the National Association of Insurance Commissioners. Examiners have relied primarily on records and materials maintained by the Company, generally covering the examination period from January 1, 2005, through December 31, 2005.

The examination included review of the following:

- Company Operations / Management
- Marketing and Sales
- Producers
- Underwriting - Forms / Policyholder Services
- New Business Underwriting Practices and Rating
- Underwriting – Cancellations / Surrenders
- Claims

This examination report is a report written by exception. References to any practices, procedures or files, that contained no improprieties, were omitted. Therefore, the majority of the material reviewed may not be addressed in this report. In the course of the examination, Examiners issued the Company examination memorandums and comment forms, to obtain specific information and/or address noted discrepancies. When Examiners issue either form, the Company is required to provide a detailed response, within a specified time frame. Generally, only the comment form will be used to cite a specific statute or regulation, when a potential non-compliant situation is identified.

An error tolerance level of plus or minus ten dollars (\$10.00) was allowed, in most cases, where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

When utilizing a sampling technique to select a sample file population for review, a minimum error tolerance level of five percent (5%) was established to determine reportable exceptions. However, if an issue appeared to be systemic or if, as a result of the file selection process, it was not possible to determine an exception percentage, an error tolerance percentage was not utilized. Also, if more than one sample population was reviewed in a particular area of the examination (e.g. timeliness of claims payment), and if one or more of the samples yielded an exception rate of five percent (5%) or more, the results of any other samples with exception percentages less than five percent (5%) were also included.

Examination findings may result in administrative action by the Division of Insurance. During the course of the examination, all unacceptable or non-complying practices of the Company may not have been discovered. However, failing to identify specific Company practices does not constitute acceptance of such practices. The contents of this report should not be construed to either endorse or discredit any insurance company or product.

EXAMINERS' METHODOLOGY

In accordance with §10-1-203, Colorado Revised Statutes, examiners reviewed the Company's business practices to determine compliance with Colorado insurance laws and regulations, as they pertain to life and annuity operations, as shown below.

Law/Regulation	Concerning
Section 10-1-108	Duties of Commissioner – reports – publications – fees – disposition of funds - adoption of rules.
Section 10-1-109	Rules and regulations of commissioner
Section 10-1-111	Grounds and procedure for suspension or revocation of certificate or license of entities.
Section 10-1-128 & 10-1-129	Fraudulent insurance acts
Section 10-2-103 to Section 10-2-503	Licenses – General Provisions, Prelicensure Education, Continuing Education, Licensing and Appointments and Nonresident Licenses
Section 10-2-701 to 10-2-704	Licenses – Business Conduct of Licensees
Section 10-2-1001 to 10-2-1101	Managing General Agent Act
Section 10-3-105	Certificate of Authority
Section 10-3-109	Reports, statements, assessments, and maintenance of records - publication - penalties for late filing, late payment, or failing, to maintain.
Section 10-3-1101 to 10-3-1104	Unfair Competition – Deceptive Practices
Section 10-7-102 to 10-7-109	Individual Policy Provisions
Section 10-7-112	Interest payable on benefits or proceeds
Section 10-7-113	Acceleration of Benefits
Section 10-7-302	Nonforfeiture Compulsory Policy Provisions
Regulation 1-1-7	Market Conduct Record Retention
Regulation 1-1-8	Penalties And Timelines Concerning Division Inquiries And Document Requests
Regulation 1-2-7	Concerning Managing General Agents
Regulation 1-2-9	Fees Charged by Agents/Brokers
Regulation 1-2-10	Concerning the Regulation of Insurance Producers by the Colorado Division of Insurance: Colorado Producer Licensing Model Act
Regulation 2-1-7	Concerning Issuance of a Certificate of Authority
Regulation 4-1-1	Variable Annuity Contracts
Regulation 4-1-2	Advertising and Sales Promotion of Life Insurance

Law/Regulation	Concerning
Regulation 4-1-3	Variable Life Insurance
Regulation 4-1-4	Replacement of Life Insurance or Annuity Contracts
Regulation 4-1-5	Permitting Same Minimum Nonforfeiture Standards for Men and Women Insured Under 1980 CSO and 1980 CET Mortality Tables
Regulation 4-1-8	Concerning the Disclosure Requirements for Life Insurance Illustrations
Regulation 4-1-11	Concerning Senior Protection in Annuity Transactions
Regulation 4-2-9	Concerning Non-Discriminatory Treatment of Acquired Immune Deficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Related Illness by Insurers of Life and Health Insurance
Regulation 6-1-1	Limiting Coverage
Regulation 6-2-1	Complaint Record Maintenance

Company Operations / Management

Examiners verified the Certificate of Authority and reviewed Company management, administrative controls, as well as record retention practices.

The Company's cooperation during the course of the examination was noted.

Marketing and Sales

Examiners reviewed a randomly selected sample of fifty (50) pieces of fixed annuity advertising, from a population of 685 advertising pieces. Additionally, twelve (12) agent training pieces were reviewed.

The content of the material was reviewed to ensure compliance with Colorado insurance law and to verify that the Company's products were accurately represented.

Complaints

Examiners reviewed all nine (9) consumer complaints received by the Company during the examination period.

Each file was reviewed to ensure accuracy of the file information, as well as the timeliness of the response to the consumer.

Producers

Examiners reviewed producer contracts and commission structures, used during the examination period.

Additionally, Examiners reviewed 132 annuity new business replacement files, written by four (4) producers. Producer selection was primarily based upon replacement percentage, that is, annuity replacement business written, compared to their total annuity business. Emphasis was focused on what appeared to be "systematic" replacement of one (1) or two (2) carriers. Each annuity file was reviewed to ensure that required disclosures were provided and the replacing contracts, appeared to be generally suitable for the consumer.

Underwriting – Forms / Policyholder Services

All of the Company's annuity contracts/ forms for which there was inforce business during the examination period, were reviewed to verify compliance with Colorado insurance laws.

New Business Underwriting Practices and Rating

Examiners randomly selected a sample population of fifty (50) fixed annuity external replacements from a population of eighty-nine (89); a sample population of fifty (50) life external replacements from a population of sixty-six (66) and a sample population of fifty (50) and reviewed forty one (41) fixed annuity new business files from a population of 286. (Nine (9) files had been selected on the external annuity replacement sample.) Examiners also reviewed all twenty-five (25) annuity internal replacements and all eighteen (18) life internal replacements.

Underwriting – Cancellations / Surrenders / Rescissions

Examiners randomly selected a sample population of fifty (50) surrendered annuity files, from a population of 741.

Each file was reviewed to ensure that fair and consistent underwriting practices were used, timely notifications were provided and required premium refunds were timely and accurate.

Claims

Examiners randomly selected a sample population of fifty (50) annuity paid claims files from a population of 153.

The Company's claims handling guidelines were reviewed. Additionally, specific claim file information was evaluated to determine timeliness of processing and accuracy of payment.

EXAMINATION REPORT SUMMARY

The examination resulted in a total of five (5) findings in which the Company did not appear to be in compliance with Colorado insurance law. The following summarizes Examiner findings.

Company Operations / Management: In the area of Company Operations and Management, no compliance issues or concerns were identified and thus are not addressed in this report.

Marketing and Sales: In the area of Marketing and Sales, no compliance issues or concerns were identified and thus not addressed in this report.

Producers: In the area of Producers, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting – Forms / Policyholder Services: In the area of Forms and Policyholder Services, no compliance issues or concerns were identified and thus are not addressed in this report.

New Business Underwriting Practices and Rating: In the area of New Business Underwriting Practices and Rating, Examiners found four (4) areas of concern. The issues identified are:

- Failure, in some cases, to notify existing insurers of a proposed replacement within five (5) business days of receipt of a completed application.
- Failure, in some cases, to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities was completed.
- Failure to develop and maintain an adequate system to supervise and monitor the recommendations of authorized producers to ensure compliance with Colorado insurance regulation 4-1-11.
- Failure, in some cases, to obtain and/or clarify facts necessary to ensure that the product sold was suitable for the senior consumer involved.

Underwriting – Cancellations / Surrenders: In the area of Surrenders, Examiners found one (1) area of concern. The issue identified is:

- Failure, in some cases, to advise the contract owner of the right to receive information regarding the existing policy or contract values.

Claims: In the area of Claims, no compliance issues or concerns were identified and thus are not addressed in this report.

Results of previous Market Conduct Exams are available on the Colorado Division of Insurance's website at www.dora.state.co.us/insurance or by contacting the Colorado Division of Insurance.

A copy of the Company's response, if applicable, can be obtained by contacting the Company or the Colorado Division of Insurance.

MARKET CONDUCT EXAMINATION REPORT

FACTUAL FINDINGS

<p><u>NEW BUSINESS UNDERWRITING PRACTICES</u></p>
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Issue G1: Failure, in some cases, to notify existing insurers of a proposed replacement within five (5) business days of receipt of a completed application.

Colorado Insurance Regulation 4-1-4 Replacement of Life Insurance Policies and Annuities, provides in part,

Section 7. Duties of Replacing Insurers that Use Producers

A. Where a replacement is involved in the transaction, the replacing insurer shall:

- (1) Verify that the required forms are received and are in compliance with this regulation;
- (2) Notify any other existing insurer that may be affected by the proposed replacement within five (5) business days of receipt of a completed application indicating replacement or when the replacement is identified if not indicated on the application, and mail a copy of the available illustration or policy summary for the proposed policy or available disclosure document for the proposed contract within five (5) business days of a request from an existing insurer;

Life Replacement Policies

Population	Sample Size	Number of Exceptions	Percentage to Sample
66	50	12	24%

A review was conducted of fifty (50) randomly selected life insurance replacement files, which represented 76% of the life insurance replacement policies issued during the examination period.

The review revealed exceptions in twelve (12) policy files, where the Company failed to meet the required five (5) business day period, in which to send the notification letter to the existing insurer. This finding represents 24% of the sample.

Fixed Annuity Replacement Contracts

Population	Sample Size	Number of Exceptions	Percentage to Sample
90	50	11	22%

A review was conducted of fifty (50) randomly selected fixed annuity replacement contracts, representing 56% of the fixed annuity replacement contracts issued during the examination period.

The review revealed exceptions in eleven (11) contract files, where the Company failed to meet the required five (5) business day period, in which to send the notification letter to the existing insurer. This finding represents 22% of the sample.

Recommendation No. 1:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Colorado Insurance Regulation 4-1-4. In the event the Company is unable to show such proof, the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with Colorado insurance law.

Issue G2: Failure, in some cases, to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities, was completed.

Colorado Insurance Regulation 4-1-4 Replacement of Life Insurance Policies and Annuities, provides in part,

Section 6. Duties of Insurers that Use Producers

Each insurer shall:

- A. Maintain a system of supervision and control to insure compliance with the requirements of this regulation that shall include at least the following:
 - (1) Inform its producers of the requirements of this regulation and incorporate the requirements of this regulation into all relevant producer training manuals prepared by the insurer;
 - (4) Procedures to confirm that the requirements of this regulation have been met; and
- D. Require with each application for life insurance or an annuity that indicates an existing policy or contract a completed notice regarding replacements as contained in Appendix A;

Fixed Annuity Replacement Contracts

Population	Sample Size	Number of Exceptions	Percentage to Sample
90	50	16	32%

A review was conducted of fifty (50) randomly selected fixed annuity replacement files, representing 56% of the annuity replacement contracts issued during the examination period.

In sixteen (16) instances, the Company failed to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities was completed. There is a section on the form that poses the question, why is the existing policy or contract being replaced. This section was left blank. This finding represents 32% of the sample.

Annuity Internal Replacement Contracts

Population	Sample Size	Number of Exceptions	Percentage to Sample
24	24	9	38%

A review was conducted of all twenty-four (24) annuity internal replacement files issued during the examination period.

In nine (9) instances, the Company failed to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities, was completed. There is a section on the form that poses the question, why is the existing policy or contract being replaced. This section was left blank. This finding represents 38% of the sample.

Life External Replacement Policies

Population	Sample Size	Number of Exceptions	Percentage to Sample
66	50	16	32%

A review was conducted of fifty (50) randomly selected life external replacement files, representing 76% of the external life replacement policies issued during the examination period.

In sixteen (16) instances, the Company failed to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities, was completed. There is a section on the form that poses the question, why is the existing policy or contract being replaced. This section was left blank. This finding represents 32% of the sample.

Life Internal Replacement Policies

Population	Sample Size	Number of Exceptions	Percentage to Sample
18	18	6	33%

A review was conducted of all eighteen (18) life internal replacement files, issued during the examination period.

In six (6) instances, the Company failed to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities was completed. There is a section on the form that poses the question, why is the existing policy or contract being replaced. This section was left blank. This finding represents 33% of the sample.

Recommendation No. 2:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Colorado Insurance Regulation 4-1-4. In the event the Company is unable to show such proof, the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with Colorado insurance law.

Issue G3: Failure to develop and maintain an adequate system to supervise and monitor the recommendations of authorized producers to ensure compliance with Colorado Insurance Regulation 4-1-11.
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Colorado Insurance Regulation 4-1-11 Concerning Senior Protection in Annuity Transactions, provides in part:

Section 5. Duties of Insurers and of Insurance Producers

- A. In recommending to a senior consumer the purchase of an annuity or the exchange of an annuity that results in another insurance transaction or series of insurance transactions, the insurance producer, or the insurer where no producer is involved, shall have reasonable grounds for believing that the recommendation is suitable for the senior consumer on the basis of the facts disclosed by the senior consumer as to his or her investments and other insurance products and as to his or her financial situation and needs.
- D.(1) An insurer either shall assure that a system to supervise recommendations that is reasonably designed to achieve compliance with this regulation is established and maintained by complying with Paragraphs (3) to (5) of this subsection, or shall establish and maintain such a system, including, but not limited to:
 - (a) Maintaining written procedures; and
 - (b) Conducting periodic reviews of its records that are reasonably designed to assist in detecting and preventing violations of this regulation.
- (2) A general agent and independent agency either shall adopt a system established by an insurer to supervise recommendations of its insurance producers that is reasonably designed to achieve compliance with this regulation, or shall establish and maintain such a system, including, but not limited to:
 - (a) Maintaining written procedures; and
 - (b) Conducting periodic reviews of its records that are reasonably designed to assist in detecting and preventing violations of this regulation.

The Company's "Suitability Acknowledgement" document is an integral part of the required written procedures and is used to assist the producer in determining product suitability for the senior consumer. However, this "Acknowledgement" form solicits no information regarding surrender charges, penalties, death benefit impact, etc., which are key financial elements in determining the suitability of a potential purchase.

Neglecting to have such information documented creates a circumstance inadequate to confirm that the recommendations of the Company's authorized producers were appropriate regarding the suitability of the annuity products sold.

In addition, the Company has conducted no periodic reviews to assist in detecting and preventing violations of this regulation.

Recommendation No. 3:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Colorado Insurance Regulation 4-1-11. In the event the Company is unable to show such proof, the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with Colorado insurance law.

Issue G4: Failure, in some cases, to obtain and/or clarify facts necessary to ensure that the product sold was suitable for the senior consumer involved.

Colorado Insurance Regulation 4-1-11 Concerning Senior Protection in Annuity Transactions, provides in part:

Section 5. Duties of Insurers and of Insurance Producers

A. In recommending to a senior consumer the purchase of an annuity or the exchange of an annuity that results in another insurance transaction or series of insurance transactions, the insurance producer, or the insurer where no producer is involved, shall have reasonable grounds for believing that the recommendation is suitable for the senior consumer on the basis of the facts disclosed by the senior consumer as to his or her investments and other insurance products and as to his or her financial situation and needs.

Fixed Annuity Replacement Contracts

Population	Sample Size	Number of Exceptions	Percentage to Sample
90	50	3	6%

A review was conducted of fifty (50) randomly selected fixed annuity replacement files, representing 56% of the fixed annuity replacement contracts issued during the examination period.

In three (3) instances, the Company failed to obtain the Suitability Acknowledgement form when the transaction involved a senior applicant. This finding represents 6% of the sample.

Recommendation No 4:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Colorado Insurance Regulation 4-1-11. In the event the Company is unable to show such proof, the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with Colorado insurance law.

<u>UNDERWRITING – CANCELLATIONS / SURRENDERS</u>

Issue H1: Failure, in some cases, to advise the contract owner of the right to receive information regarding the existing policy or contract values.

Colorado Insurance Regulation 4-1-4 Replacement of Life Insurance Policies and Annuities, provides in part:

Section 8. Duties of the Existing Insurer

Where a replacement is involved in the transaction, the existing insurer shall:

- A. Retain and be able to produce all replacement notifications received, indexed by replacing insurer, for at least five (5) years or until the conclusion of the next regular examination conducted by the Insurance Department of its state of domicile, whichever is later.
- B. Send a letter to the policy or contract owner of the right to receive information regarding the existing policy or contract values including, if available, an in force illustration or policy summary if an in force illustration cannot be produced within five (5) business days of receipt of a notice that an existing policy or contract is being replaced. The information shall be provided within five (5) business days of receipt of the request from the policy or contract owner.
- C. Upon receipt of a request to borrow, surrender or withdraw any policy values, send a notice, advising the policy owner that the release of policy values may affect the guaranteed elements, non-guaranteed elements, face amount or surrender value of the policy from which the values are released. The notice shall be sent separate from the check if the check is sent to anyone other than the policy owner. In the case of consecutive automatic premium loans, the insurer is only required to send the notice at the time of the first loan.

Surrendered Annuity Contracts

Population	Sample Size	Number of Exceptions	Percentage to Sample
741	50	5	10%

A review was conducted of fifty (50) randomly selected surrendered annuity files, representing 7% of the annuity contracts surrendered during the examination period.

In three (3) instances, the Company failed to notify the contract owner of the right to receive existing policy or contract values. In two (2) instances, the Company failed to send the required notification within five (5) business days. This finding represents 10% of the sample.

Recommendation No. 5:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Colorado Insurance Regulation 4-1-4. In the event the Company is unable to show such proof, the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with Colorado insurance law.

SUMMARY OF ISSUES AND RECOMMENDATIONS

ISSUES	Rec. No.	Page No.
NEW BUSINESS UNDERWRITING PRACTICES		
Issue G1: Failure, in some cases, to notify existing insurers of a proposed replacement within five (5) business days of receipt of a completed application.	1	16
Issue G2: Failure, in some cases, to ensure that the form, Important Notice: Replacement of Life Insurance or Annuities was completed.	2	18
Issue G3: Failure to develop and maintain an adequate system to supervise and monitor the recommendations of its authorized producers to ensure compliance with Colorado Insurance Regulation 4-1-11.	3	20
Issue G4: Failure, in some cases, to obtain and/or clarify facts necessary to ensure that the product sold was suitable for the senior consumer involved.	4	21
UNDERWRITING – CANCELLATIONS / SURRENDERS		
Issue H1: Failure, in some cases, to advise the contract owner of the right to receive information regarding the existing policy or contract values.	5	23

Independent Market Conduct Examiners

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